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Turkey Retail Food Sector Report 2004

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Report Highlights:

The Turkish retail food sector is gradually recovering from the economic crisis of 2001. The size of the local retail food market is estimated to be USD 23 billion in 2003. The sector continues to modernize, though at a slower pace than in the past ten years. The arrival of new international chains has increased competition among the large retailers and companies are focusing more on higher returns per outlet rather than increasing the number of stores.

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I. Executive Summary

The retailing sector in Turkey has developed rapidly since the 1980's with significant changes both in economic and social structures. More than two decades of liberalization of the Turkish economy, stimulated by its Customs Union with the European Union (1996), has freed Turkish entrepreneurial dynamism. The Turkish economy has gone through cycles, however. Since the early nineties high-growth periods have been followed by crisis – economic, natural and/or political. Lingering effects of the 2001 economic crisis that are still being felt include high unemployment.

Despite periodic setbacks, the medium-term economic outlook is positive and a number of trends and events will positively influence the retail sector. Income growth, high urbanization rates, and the increasing number of women in the workforce all influence changes in tastes and preferences that support the development of the retail sector.

Although the number of large retail outlets in Turkey is growing, the majority of the population does not shop in these stores due to low income and high prices. Industry sources estimate that only five to seven million people do the majority of their shopping in modern retail outlets. Food prices in Turkey, especially for imported processed goods, are extremely high. For example, beef prices are higher in Turkey than they are in Switzerland. High tariff protection applies to processed food products with tariffs ranging up to 227.5 percent. The average per capita income in Turkey is about USD 2,500 per year (2002), which significantly limits the purchasing power of the majority of Turks.

The structure of the retail sector is significantly influenced by the type of food consumed by the majority of the population. For low-income groups, it is estimated that 55 percent of the diet is made up of bread with additional 15 percent made up of rice, potatoes and pasta products. For the entire population, processed foods make up only about 15 to 20 percent of consumption. Thus, the share of hypermarkets in the overall food retail market is still low but increasing gradually. Industry sources estimate that hypermarkets controlled approximately 9.5 percent of the retail market in 2002, up from 6.5 percent in 1999. This share is expected to reach 12 percent by the end of 2004.

The classification of food retail outlets in this report is based on outlet size:

Hypermarkets are over 2,500 square metres (m²), Large Supermarkets between 1,000 and 2,500 m² Supermarkets 400 to 1,000 m² Small Supermarkets less than 400 m² Markets 100 to 50 m² Bakkals 50 or less m²

According to trade sources, the total number of food retail outlets including convenient stores in Turkey declined to about 225,000 in 2002 compared to about 230,000 in 2001. The change is due to modern supermarkets and discount stores replacing traditional stores. These include small grocery retailers, called *bakkals*, to the less common but rapidly growing hypermarkets selling food, household items, and durable goods. This transformation has mainly occurred in large cities, but recent investments have targeted medium-sized cities where the population is more than 600,000 and shopping habits are changing.

In 2002 industry sources estimate the Turkish retail market to be about USD 66 billion, of which USD 23 billion (35 percent) comprised of food sales. Total retail food sales broke down as 47 percent in bakkals and markets, 10.5 percent in small supermarkets, 9.5 percent in supermarkets, 7.5 large supermarkets, 10 percent in hypermarkets and the remaining 14 percent in specialist food retailers and convenience stores and open air bazaars.

Retail Food Sector Trends (Market Share According to Outlet):

	1999	2000	2001	2002	2003*
Hypermarkets	6.5	8	9.5	9.6	10
All Supermarkets Markets	17	20	25	27.5	31
Markets	12.5	10	9.5	9.4	9
Bakkals	49.5	48	42	40.5	36
Others (Convenient Stores, Kiosks)	14.5	14	14	13	14

^{*}Post estimates

Following a rapid growth era -- 35 percent between 1994 and 2000 -- the Turkish food retailing market shrank about 20 percent in 2001 due to the economic crisis, which continued throughout 2002. The economy started to recover in 2003 and food sales increased about 4 percent in real terms (on top of 18 percent local inflation). Despite the slower growth since the crisis in 2001, hyper- and supermarkets continue to be among the most dynamic subsectors. While existing food retail chains continue to open up new stores, new international chains are buying local chains. For example, Tesco of England bought majority shares of Kipa in 2003. Competition is getting tougher among the food chains. Oypa, which had fourteen stores decided to sell out its stores to other chains and leave the retail food business. Hard discount stores also grew rapidly starting from 2001. Discount stores have benefited from changes in consumer preferences towards lower-price goods.

Trends in products and services provided by the major chains include private label food items, phone and Internet purchase and delivery and membership cards. Since bakkals have traditionally provided delivery service, and the minimum purchase level is relatively low, supermarkets hope this service will increase their customer base. In order to increase their sales, large supermarkets have increased their advertising spending and have started various promotion programs.

According to industry sources, at the end of 2002, there were over 4,000 supermarkets in Turkey, of which 150 were hypermarkets. The number of hypermarkets increased more than three-fold between 1995 and 2000. However, the growth rate of hypermarkets declined since the 2001 crisis and the total number is expected to reach 160 units by the end 2004.

The share of hypermarkets and supermarkets is expected to increase from their current 42 percent to more than 50 percent of the retail market by the end of 2005. Although the share of bakkals and markets decreased from 76 percent to 44 percent between 1994 and 2003, this segment still continue to boasts more than USD10 billion in annual sales. However, the growth in larger outlets is having an impact on the bakkals, and increasing numbers of them are closing.

There were unsuccessful attempts by the government to slow down the closure of bakkals by limiting new hypermarkets in the downtown areas. In the near future, it is expected that the market share of bakkals will fall below 35 percent. In the future the sector in large urban areas will be dominated by major hypermarket and supermarket and hard discount chains like Migros, Carrefour SA, Gima, BIM, Tansas, Afra, Yimpas etc.

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	1996	1998	2000	2001	2002
Hypermarkets	40	90	130	149	151
Large, Medium, Small	1,275	2,045	2,850	3,490	3,855
Supermarkets					
Markets	10,750	12,190	13,230	13,210	13,555
Bakkals	164,365	155,420	136,760	128,580	122,340
Others (Connivance stores,	22,030	24,375	26,505	26,835	23,170
Kiosks, etc.)					
TOTAL	198,460	194,120	179,475	172,264	139,901

Before the crisis, consumer-oriented agricultural imports to Turkey were increasing at a modest rate. While imports only account for about 2 percent of retail food sales, an increasing variety of products are finding their way onto the shelves.

Consumer-Oriented Agricultural Imports from All Sources, Based on UN Trade Statistics

	1996	1998	2000	2001	2002
(Million USD)	353.7	393.2	415.6	303.9	416.2

According to UN Data, US retail food product exports had a 4 percent share of total consumer oriented food imports to Turkey in 2002. Tree nuts, dairy products, snack foods, chocolate and confectionary goods and sauces were the major US export items. Additionally there has been a significant amount of US rice, corn, nuts, vegetable oil and pulses exported to Turkey.

The following is a summary of the advantages and challenges facing US exporters in the retail food sector in Turkey:

Advantages	Challenges
Change in retailing structure has opened new areas for branded import items.	Customs Union with the EU creates a privileged position for EU imports to Turkey. All food imports face arduous documentation requirements.
Some US products are better priced than local products. The lower value of the dollar against the Turkish lira in recent months has made some US products more attractive.	Transportation costs are much lower for nearby countries. Increased cost of container shipment added additional cost on imported items.
US products have a good image in Turkey and US tastes are welcomed by Turkish consumers.	There are high import duties on particular products. (Between 12% to 240% on bulk agricultural commodity products and 6% to 228% on processed food products)
International retailers who market a wide range of imported products in the sector have influence on purchasing patterns.	There is a well-developed local food-processing sector supplying most product segments in the marketplace.
There is a growing demand for specialized products such as Tex-Mex, diabetic and diet foods, which are mostly imported.	US food products are poorly promoted in Turkey. High shelf fees charged by the large chains lead to high costs for introducing new products.

II. ROAD MAP FOR MARKET ENTRY

Turkey's highly fragmented food-retailing structure is in a period of transition, moving from individually-owned small outlets such as bakkals, to large outlets. As the industry changes, the supply chain adapts to the changes. Hypermarkets, major supermarket and hard discount chains import some of the items directly, whereas smaller outlets use intermediaries as importers, distributors, and agents. A new-to-market exporter can directly approach major supermarket chains' purchasing departments. It is also useful to get in contact with independent importers, especially those with nationwide distribution services. A list of major Turkish food importers is available from TUGIDER (Association of Food Importers) or from FAS Ankara. TUGIDER has 104 members and represents the majority of Turkish food importers. This organization can be contacted by telephone at (+90) (212) 212-0919, and by fax at (+90) (212) 212-0920 or at www.tugider.org.tr. Another organization, which may be of use in arranging Turkish contacts, is DEIK, the Foreign Economic Relations Board, who assist Turkish businesses that are interested in moving into international commerce. DEIK can be contacted at telephone number (+90) (212) 243-4180, fax (+90) (212) 243-4184, or at www.deik.org.tr.

Interested US exporters are also recommended to participate in food shows in Turkey. The leading food show in Turkey is **GIDA 2004**, which is organized by ITF (www.itf-exhibitions.com), attracts 30,000 visitors and is scheduled to take place 9-12 September 2004 in Istanbul.

A. Supermarkets, Hypermarkets, Club and Warehouse Outlets

Hypermarkets have recently become fashionable investments within the retailing sector in Turkey. Sabanci, Koc and Dogus -- three major conglomerates in Turkey -- are heavily involved in this sector. There are more than 50 different chains operating in the Turkish retail business. Foreign investors present in the Turkish retail market include Carrefour SA (France) and Sabanci JV, Bookers (UK) and Sezginler JV (joint ventures), or purchases of majority shares such as Tasco's recent purchase of KIPA.

Large western-style retail outlets have flourished in Istanbul, Ankara Izmir, and other large cities such as Adana, Gaziantep, Bursa, Kocaeli, Konya and Mersin. Here consumers are more aware of international trends, have higher disposable incomes, and have automobiles to reach large warehouse-sized stores. Locally owned retail chains tend to concentrate on middle to small cities and towns of Turkey.

Distribution Channels

Although distribution options vary depending on the product involved, the typical product goes through the following stages to reach the consumer: manufacturer/importer - distribution company/department - large-scale wholesaler - wholesaler/distributor - retail unit.

- Typically, an importer or agent who may also be a wholesaler and/or distributor imports products.
- Significant numbers of distributors offer nationwide service. National distributor companies distribute nearly 50 percent of total food and other consumer goods.
- Thirty percent of major manufacturers have their own distribution company operating nationwide.

- Most hypermarkets import directly besides purchasing from other distribution channels. However, this constitutes only a small portion of their sales.
- Increasing number of large and medium size markets (Migros, Tansas, Yimpas, Gima, Bookers) have begun to use e-commerce for the supply of domestic and imported products.

Company Name	Type of Outlet	Ownership	Turn-over USD Million	Number of Outlets (2003)	Location (# of)	Purchasing Agent
Migros SOK	Hyper, super & discount stores (SOK), e-trade	Turkish	1.5 Billion (CY2003)	484	Nationwide & Intl' (20)	Direct Importers
Metro	Cash & carry / club centres	German	400 (CY1998)	8	Istanbul (2), Izmir, Bursa, Ankara, Adana, Bodrum	Direct
BIM	Hard discount stores	Turkish, US & Saudi Arabian	1.2 billion (CY2001)	750	Nationwide	Importers
Tansas Makro	Hyper & supermarkets	Turkish	500 (CY2003)	192	Nationwide	Importers, Distributors
Gima	Supermarket & discount stores (Endi)	Turkish	450 (CY2003)	78 (Gima) 41 (Endi)	Nationwide & Intl' (2)	Importers, Distributors
CarrefourSA ChampionSA DiaSA	Hypermarkets Supermarkets Discount stores	Turkish & French	120 (Carrefour Sales CY1998)	12 4 135	Nationwide	Direct, Importers
Begendik	Hyper & supermarkets	Turkish	70 (CY2003)	9	Kayseri (5), Ankara (4)	Importers, Agents
Osmar	Supermarkets	Turkish	100 (CY1998)	33	Istanbul (42), Zonguldak (2)	Importers, Agents
Pehlivanoglu	Supermarkets	Turkish	Approx. 115 (CY2001)	67	Aegean region	Importers
Kiler	Supermarkets	Turkish	n.a.	34	Istanbul	Importers
Marketim	Small supermarkets	Turkish	60	78	Marmara Region	Importers, Agents
Tesco-Kipa	Hypermarkets	Turkish	200 (CY2003)	5	Izmir	Importers, Agents
Yimpas	Hyper & supermarkets	Turkish	350 (CY2003)	63	Nationwide & Intl'	Importers, Distributors
Contour	Hypermarkets	Turkish	40	4	Istanbul (3), Ankara	Importers, Distributors
Maxi	Hypermarkets	Turkish	150	4	Istanbul, Tekirdag	Importers, Distributors
Afra	Hypermarkets	Turkish	150	22	Konya (3), Antalya(2)	Importers, Distributers
Real	Hypermarkets	German	n.a.	7	Ankara, Gaziantep	Importers
Booker (JV)	cash & carry	Turkish & UK	n.a.	12	Istanbul, Izmir, Kocaeli	Direct

B. Convenience Stores, Gas Marts, Kiosks, Etc.

- Seven Eleven is the leading organized convenience-type store chains in Turkey since 1995. The new Seven Eleven owner, Opet, plans to increase the number of outlets from 25 to 50 by the end of 2005.
- Other convenience stores, gas marts and kiosks are generally single individual enterprises.
- Gas station mini-marts are also new in Turkey, with seven or eight major brands.
 Marketim, a market chain, has made an agreement with Elf Gas Stations to open up 24 hour service gas station mini-marts. They planned to open 25 outlets initially. Other gas stations and gas mini-marts do not operate as part of a chain marketing system (they self-stock).

Distribution Channels

Since this category is currently fragmented, with limited sales volume, outlets cannot purchase from first hand distribution units or import directly. They buy from wholesalers, hypermarkets, as well as importers, agents and/or distributors.

C. Traditional Markets

Bakkals, certain types of convenient stores and open-air bazaars are forms of traditional outlets in Turkey. Bakkals are small outlets, which sell anything from food (fresh and prepared) to personal care products. Convenient stores mostly sell dry nuts, and confection items, tobacco products and soft drinks. Open-air bazaars mainly concentrate on fresh vegetables and fruits. All three are still preferred by the majority of Turkish consumers. Two main reasons for this preference are: bakkals and convenient stores are in convenient locations close to home and corner bazaars offer a wide variety of products, fresh fruits and vegetables, clothing, over-the-counter products and personal care products at low prices.

Distribution Channels

- Bakkals and convenient stores are supplied from various channels including distributors, agents, wholesalers, small wholesalers, and hypermarkets. Open-air bazaars obtain supplies from farmers and specialty wholesalers (vegetables and fruits).
- The sale of imported food items is much lower in traditional markets than in supermarkets, due to a different customer base. There is little import of fruit into Turkey, other than tropicals such as bananas, pineapples, mangos, and papayas.
 Imported bananas and kiwis are also available at traditional markets whereas mangos and papayas are still for luxury consumption, and are only available at big supermarkets and specialty retail outlets. Recently, Turkey has imported foreign apples as a luxury item.
- Imported pulses and rice are available both in the bakkals and open air bazaars since domestic production does not meet domestic demand.

III. COMPETITION

Low per capita income, poor income distribution, high local tariffs and non-tariff barriers prevent any significant increase in imports of consumer ready food items. Imported food items represent only a fraction (two percent) of domestic food market. Industry sources estimated that only the top five to ten percent of Turkish population can afford imported food

items. In addition, Turkey has a well-developed domestic food processing industry and local food products continue to dominate the Turkish retail market with 98 percent market share. Turkish food producers are flexible and innovative and tend to produce products similar to imported ones when they see a good opportunity to increase sales.

In 2002 imported products accounted for only USD 416 million of the USD 23 billion retail food market. (2003 import data is not available yet). Confectionery, chocolates, cheese and butter, coffee and cocoa, snacks, biscuits, canned food, ready-to-eat meals, soft drinks, energy and sports drinks, mineral water, and alcoholic beverages represent the main retail products currently exported to the Turkish market. They mostly consisted of widely known international branded products.

According to UN data during the first 11 months CY2003, Turkey imported about USD 24 million worth of consumer-oriented agricultural products from the US of which tree nuts, pet food, processed fruits and vegetables, seafood, dairy products and snack foods were among the leading items. The main competition for US food products comes from European countries, which enjoys the advantage of the Customs Union Agreement.

On average, European countries have two-thirds share of total Turkish retail food imports. Investments of major European hypermarket chains such as Carrefour SA of France, Metro and Real of Germany, and Booker and Tesco of UK have also played a role in the dominancy of European countries in Turkish imports of retail food products. The great majority of imported dairy products, cheese, snack foods, processed fruits and vegetable are traditionally sourced out of EU countries. During 2002 Turkey imported a total of USD 55 million dairy products, USD 26 million snack foods and USD 9 million breakfast cereals of which EU countries respectively supplied 85 percent, 82 percent and 78 percent.

IV. BEST PRODUCT PROSPECTS

Products now present in the market

The best product prospects for the imported food market are internationally well-known branded products. Branded products in general accounted for 30 percent of overall imported (non-bulk) food products. These include cocoa and instant coffee, chocolate and confectionary goods, cookies and crackers, breakfast cereal, various cheeses, soft drinks & alcoholic beverages, and sauces. Major imported items break down into the following categories:

Cocoa and coffee: Turkey is dependent on imports in this category, since there is no local production of cocoa and instant coffee. The dominancy of the Nestle and Jacobs' brands in the instant coffee market makes it difficult for new entrants to the Turkish market. Recently however, some discount chains and cash & carries, such as BIM and Booker, have commenced the direct importation of low priced products. However, since the arrival of Starbucks there is a niche market for gourmet coffee in the upscale cafes and restaurants as well.

Dry nuts and confection items: US Popcorn, roasted corn, almonds and confection sunflower seeds are popular among the Turkish consumers and there is a growing market of these items provided price is competitive compared to other sources. US exports of almonds to Turkey reached a record level in 2003.

Wine: Recent changes in local wine import and distribution regulations will allow importers to import wine directly rather than going through TEKEL (Turkish Tobacco and Alcohol Monopoly). These regulatory changes will also cut total import taxes and enable them to

distribute wine freely. Popularity of wine as an alcoholic beverage has increased in recent years. Consumption has doubled during the last five years, and Turkish consumers are willing to try new varieties.

Chocolate and confectionary goods: Although there is a very developed local industry in Turkey, major international brands have the opportunity to sell small quantities of premium products in high-end outlets such as delicatessens, hypermarkets and supermarkets. It is very difficult for lesser-known brands to be successful in Turkey.

Flour and flour-based products: Crackers and cookies, diet breads, crisp breads and special kinds of pasta are present in the Turkish market. These products tend to appeal to higher income consumers, and are distributed via upper middle-income retail outlets (specialty shops, supermarket and hypermarkets).

Energy & Sports Drinks: The young, wealthy city dwellers favour the "sporting" lifestyle and want the products that go with it. Turkey also has some domestic production of "energy" and "sports" drinks, and existing brands are continuing to experience large growth rates.

Breakfast Cereals: Corn flakes, instant oats, muesli, bran fibre flakes with raisins, mixed fruit and chocolate cereals are major breakfast items welcomed by Turkish consumers.

Sauces and syrups: Imports of these products continue to grow as tastes diversify. These products can also be found in smaller supermarkets and bakkals in the larger cities.

Ice Cream: Two brands are dominant in Turkish ice cream sold through retail outlets, with many smaller newcomers. Sales are increasing dramatically (15-20 percent) due to tourism and changing taste and there is much room for super-premium brands that can adapt to the local taste preferences or get placement in tourist outlets. See another report, **TU9029**Market Brief - Ice Cream for details.

Pet food: This market is increasing about 20 percent annually, with very limited domestic production.

Products with strong sales potential not present substantially in the market:

Beer: Recent changes in beer import regulations, which eased terms for importation and distribution of imported beer, represent a good opportunity for US beer. Beer consumption in Turkey is increasing with a higher rate (about 1.4 percent per year compared to zero in the EU) due to a relatively large young population and large number of foreign tourists (14 million in 2003). Presently almost all the beer consumed in the country is produced locally and Turkish consumers are open to new products and tastes.

Ready-to-eat, ready-to-cook meals & canned soup: The ready-to-eat and ready-to-cook meals market has a high potential, linked to the increase in working women and the generally more hectic lifestyles. There are only a few local companies marketing such products. Foreign importers, therefore, especially those specializing in Far Eastern, French, and Tex-Mex, have a good chance for successful market entry.

Gourmet/Foreign Foods: As Turkish tastes become more sophisticated, there is a growing interest now shown in restaurants featuring novel foods such as "Tex-Mex", "Chinese", "Thai" and "Japanese". The availability of these foods is likely to spread from high-priced restaurants to the retail food outlets in coming years.

Frozen food: Though there is a limited amount of imported frozen food and frozen seafood in the Turkish retail market, importers believe that there is good potential in this sub sector over the next five years.

Products that are not successful in the market:

There are a few examples of failed products in the Turkish market, such as some international brands of chewing gums and chewing candies. It is not the intrinsic product types that have failed, but the specific brands imported or the inadequate marketing strategies or expenditures applied when the product lines were introduced. Adopting products popular in the west is a large part of the modern Turkish lifestyle. Internationally known brand names are very useful for this. Exporters should be particularly sensitive to brand positioning and be ready to invest in necessary research and marketing support to assist their importing partners in a successful introduction.

V. POST CONTACT INFORMATION

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